No. 14-1520

IN THE

Supreme Court of the United States

STRYKER CORPORATION, STRYKER PUERTO RICO, LTD., AND STRYKER SALES CORPORATION,
Petitioners,

v.

ZIMMER, INC. AND ZIMMER SURGICAL, INC.,
Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENTS

MARK C. FLEMING
REBECCA A. BACT
WILMER CUTLER PICKERING HALE AND DORR LLP
60 State Street
Boston, MA 02109

DONALD R. DUNNER
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER
901 New York Ave., NW
Washington, DC 20001

SETH P. WAXMAN
Counsel of Record
THOMAS G. SAUNDERS
THOMAS G. SPRANKLING
JOHN B. SPRANGERS*
WILMER CUTLER PICKERING HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

JASON D. HIRSCH
WILMER CUTLER PICKERING HALE AND DORR LLP
7 World Trade Center
250 Greenwich Street
New York, NY 10007

QUESTION PRESENTED

Whether damages in a patent infringement case may be trebled under 35 U.S.C. § 284, even though the defendant presents objectively reasonable defenses that the patent-in-suit is invalid or not infringed.

CORPORATE DISCLOSURE STATEMENT

Zimmer Surgical, Inc. is wholly owned directly or indirectly by Zimmer, Inc. Zimmer, Inc. is wholly owned directly or indirectly by Zimmer Biomet Holdings, Inc. More than 10% of the stock of Zimmer Biomet Holdings, Inc. is held by a consortium of private equity funds affiliated with four investment firms, three of which, the Blackstone Group L.P., Kohlberg Kravis Roberts & Co., L.P., and the Goldman Sachs Group, Inc., are publicly traded.

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INTRODUCTION

For over 150 years, a patentee seeking the punitive remedy of enhanced damages has had to demonstrate that the defendant infringed in an unusually flagrant manner. This Court first articulated the requirement in 1854, and the courts of appeals repeatedly held that enhancement requires proof of willful infringement. In 1952, Congress enacted 35 U.S.C. § 284 against this background understanding—that enhanced damages may only be awarded to punish willful infringers. Since *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), the Federal Circuit has applied a predictable framework drawn from this Court's precedent to assess whether a given defendant engaged in willful infringement. Under this test, willful infringement requires proof that (1) "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" and (2) "this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer." *Id.* at 1371 (citing *Safeco Ins. Co. of Am.* v. *Burr*, 551 U.S. 47 (2007)). If both requirements are met and willfulness is established, the district court may exercise its discretion to determine whether the particular facts of the case merit enhanced damages. *i4i Ltd. P'ship* v. *Microsoft Corp.*, 598 F.3d 831, 859 (Fed. Cir. 2010), *aff'd*, 131 S. Ct. 2238 (2011). Congress's enactment of the America Invents Act (AIA) in 2011 reflects awareness and approval of this established test.

Stryker now seeks to uproot the longstanding threshold requirement of willfulness and replace it with an approach that would permit district courts to impose enormous punitive damages with few limits and minimal oversight. Even the government agrees that § 284

cannot be stretched that far and applies only in the most "egregious" cases. U.S. Br. 10.

More broadly, both Stryker's and the government's approaches offer no way for the numerous companies and people who may be accused of infringement—including manufacturers, retailers, and end users—to anticipate whether they risk being subject to punitive damages if they choose to challenge a questionable patent. This unpredictability would drive companies to settle even marginal claims and would increase the incentives to file questionable patent suits, which already drain massive resources. Eliminating the *Seagate* test would also encourage forum shopping.

Neither Stryker nor the government presents good reason for this Court to inflict such a substantial drag on the American economy. The current *Seagate* test in general, and its objective prong in particular, are well in line with this Court's precedent governing willfulness in the context of civil remedies. Indeed, this Court has already expressly rejected the notion that it should consider "evidence of subjective bad faith" despite "objectively reasonable" behavior by a civil defendant. *Safeco*, 551 U.S. at 70 n.20.

Nothing in 35 U.S.C. § 285 or this Court's recent application of it warrants a contrary result. Section 285 allows prevailing parties to recover attorneys' fees expended defending meritless suits, and thus serves a compensatory purpose, not a punitive purpose like § 284. Section 285 also lacks § 284's long interpretive history.

Stryker's desired approach has no grounding in law or public policy. The Federal Circuit's judgment should be affirmed.

STATEMENT

A. Zimmer's Products And Stryker's Patents

Zimmer and Stryker manufacture pulsed lavage devices that squirt fluid and apply suction during medical operations. Pet. App. 4a. The basic concept existed long before the patents-in-suit, and the pulsed lavage market is crowded and heavily patented. *Id.* 4a-5a; *see, e.g.*, CAJA16693 (early design of pulsed lavage device). The patents Stryker asserted here are directed to particular combinations of elements used in pulsed lavage devices that are portable and battery powered. Pet. App. 4a.

Zimmer began manufacturing portable, battery powered pulsed lavage devices years before the first of Stryker's asserted patents issued. In 1996, Zimmer released the Var-A-Pulse. Pet. App. 5a. In 1998, Zimmer began working on an updated design, known as the Pulsavac Plus. *Id.* At the time, none of the patents-in-suit had issued. Indeed, Stryker conceded below that Zimmer did not "bec[o]me aware of the patents-in-suit" until "*after* the Pulsavac Plus hit the market." Dist. Ct. Dkt. 496, at 22-23 (emphasis added).

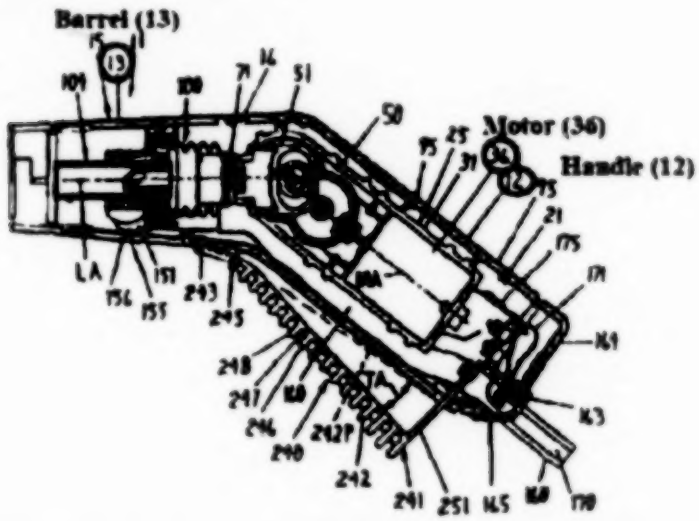
The first of Stryker's three asserted patents (U.S. Patent No. 6,022,329) did not issue until 2000. Pet. App. 5a. Although Stryker inspected Zimmer's devices that year, it did not file suit against Zimmer. CAJA129. In 2001, a second Stryker patent issued (U.S. Patent No. 6,179,807), based on an application that was not filed until after Zimmer's Var-A-Pulse launched. Pet. App. 5a. A third Stryker patent (U.S. Patent No. 7,144,383) issued in 2006. *Id.* Stryker still did not sue Zimmer until 2010—a decade after its first patent issued. *Id.*

B. Zimmer's Defenses

Zimmer presented robust defenses to Stryker's infringement allegations. Zimmer argued its products did not satisfy the '329 patent's claim limitation requiring a "handle" and "electric motor spaced *between the top and bottom* of said handle and located *in said handle*." JA104 (emphasis added). Stryker's product, unlike Zimmer's, did have an electric motor *in* the handle:

Stryker SurgiLav Plus

Stryker C.A. Br. 6 (annotation added). Figure 4 of the '329 patent likewise showed the motor *in* the handle, as opposed to the barrel:



Zimmer C.A. Br. 7 (annotating CAJA307).

In contrast, the motor in Zimmer's Pulsavac Plus "is not located in the handle—rather, it is located in the

'nub' of the handpiece, the protrusion behind the barrel." Pet. App. 8a.

Zimmer C.A. Br. 24 (annotating CAJA9829). Far from merely copying Stryker's product, Zimmer's improvement allowed for a smaller and more ergonomic handle, avoided having an internal motor that would heat the handle, and facilitated a more balanced design.

The distinction between placing the motor in the handle and in the barrel was one that Stryker itself relied on to convince the Patent Office that its patent claims were distinguishable from prior art with a motor placement similar to Zimmer's. Pet. App. 10a; *see also* JA404 (district court acknowledging that "Stryker made [such statements] in an effort to distinguish its own products from the prior art of the Mattchen patent").

Mattchen Prior Art **Zimmer's Product**

CAJA16615.

In denying Stryker's motion for summary judgment of infringement of the '329 patent, the district court held that "Zimmer ha[d] produced [sufficient] evidence" to "allow the jury to decide in its favor." JA403-404.

Regarding the '807 patent, Zimmer contended that its accused products did not meet the claim limitation requiring a handpiece with "a front end for *receiving* the discharge tube and the suction tube." JA187 (emphasis added). Zimmer explained that this claim limitation "requires ... male openings on the [removable] tip [of the device] that fit into the female nozzles on the handpiece." Pet. App. 14a; *see also id.* ("various dictionary definitions" show "'receive'" means "'contain'" or "'hold'"). Zimmer's accused products embody the opposite design: they include "female openings on the tip" that receive the "tapered male nozzles on the handpiece." *Id.*

Zimmer also presented evidence that the '807 patent's asserted claims were invalid as anticipated by Zimmer's prior art Var-A-Pulse device. Stryker's own expert witness conceded that the Var-A-Pulse included "all of the limitations of the asserted four claims of the '807 patent," JA441, except for the requirement that there be "a lock assembly mounted to the front end of said body for releasably securing the discharge tube and the suction tube," Pet. App. 16a. The district court construed "lock assembly" broadly to mean any "components that work together to secure or fasten the tip to the handpiece," *id.*, and noted that Zimmer "can plausibly argue to a jury" that the Var-A-Pulse included this limitation, thus invalidating the '807 patent. JA406.

Finally, Zimmer argued that the '383 patent was invalid as obvious. Stryker did not dispute that "all of the limitations of the '383 patent's asserted claims were collectively present in the prior art references." Pet. App. 18a. The primary difference between the lead reference and the '383 patent was that the former used a pneumatic motor and the latter an electric motor. Zimmer contended that replacing a pneumatic motor with an electric one would be entirely predictable to an ordinarily-skilled artisan. *Id.* 18a-19a. Indeed, the Patent Office rejected similar claims in a related Stryker patent application on the ground that substituting an electric motor would be obvious. JA371-385; JA454-455. Stryker "ultimately abandoned" that application without contesting the rejection. Pet. App. 19a.

C. Proceedings Below

At trial, the jury sided with Stryker on infringement and invalidity. It also found that Zimmer willfully infringed Stryker's patents. The jury was not asked to, and did not, make any finding of subjective bad faith or vexatious conduct by Zimmer. Rather, the jury was instructed that "[w]illfulness focuses on whether Zimmer acted recklessly." JA462. It was also instructed that, even in the absence of actual knowledge, the subjective component of the test could be met if Zimmer "should have known that its actions constituted an unjustifiably high risk of infringement of a valid patent." JA463.

The jury awarded Stryker $70 million in lost profits. Pet. App. 5a. The district court denied Zimmer's post-trial motions and awarded an additional $6.1 million in supplemental damages, $12.2 million in prejudgment interest, and $8 million in attorneys' fees. JA483-484; Dist. Ct. Dkts. 565-566. The court also enjoined

the Pulsavac Plus products found to infringe the '807 patent. The court then trebled the entire lost profits and supplemental damages amounts and awarded over $152 million in enhanced damages under 35 U.S.C. § 284, for a total judgment exceeding $248 million.

Zimmer appealed. Although the Federal Circuit affirmed the liability judgment under the highly deferential standard for review of jury verdicts, it reversed the district court's decision to treble the damages award. Pet. App. 21a-24a.[1] The court of appeals explained that "an objective assessment of the case shows that Zimmer presented reasonable defenses to all of the asserted claims of Stryker's patents." *Id.* 23a; *see also id.* 23a-24a (assessing each of Zimmer's defenses). In particular, it noted that whether the '807 patent was infringed was "a close case." *Id.* 16a, 23a-24a.

The panel also held that, because the district court had "failed to undertake an objective assessment of Zimmer's specific defenses to Stryker's claims," "the district court erred under any standard of review." Pet. App. 22a & n.6. The panel therefore held that it "need not now address what standard of review is proper regarding the objective prong of willfulness." *Id.*

SUMMARY OF ARGUMENT

I. The rule that a threshold showing of willfulness is required before enhanced damages can be awarded stretches back 150 years; it has been repeatedly fol-

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[1] The Federal Circuit also held that the district court's analysis of Stryker's disclaimer of devices with the motor in the barrel "was flawed," Pet. App. 11a, and that the district court "incorrectly instructed" the jury on patent marking, *id.* 21a n.5. The court deemed both errors harmless.

lowed by this Court and the courts of appeals ever since. Congress enacted 35 U.S.C. § 284 against this backdrop and gave no indication that it intended to depart from the settled rule requiring willfulness. To the contrary, the legislative history of § 284 supports a willfulness requirement, and Congress recently relied on the Federal Circuit's settled interpretation of § 284 to preserve the existing willfulness test in the 2011 America Invents Act.

II. Nothing in *Octane* or *Highmark* warrants discarding the well-established willfulness requirement. Those cases involved 35 U.S.C. § 285, which provides for attorneys' fees to compensate prevailing parties and does not serve the same punitive purpose as § 284. Moreover, the attorneys' fees provision was first inserted into the statute in 1946 and lacked the same long interpretative history.

By contrast, the Federal Circuit's *Seagate* test, which requires a showing that the defendant acted despite "an objectively high likelihood that its actions constituted infringement of a valid patent," is in line with both the long tradition of requiring proof of willfulness and the punitive nature of § 284. This Court has required objectively reckless behavior to support a willfulness finding, and the *Seagate* opinion expressly relied on that precedent. An objective requirement is also in line with the Patent Act's goals of spurring innovation and encouraging challenges to the validity and scope of questionable patents. And *Seagate*'s objective test properly takes account of defenses developed during litigation, as a contrary rule would discourage such challenges and place an unreasonable burden on industry to conduct and document a thorough investigation of every potentially relevant patent.

Stryker's nebulous "totality of the circumstances" approach would have a substantial, negative impact on the American economy. The unpredictable threat of treble damages in every patent case would drive companies to settle even marginal claims and increase the incentive for questionable patent suits, which already drain massive resources from the economy each year. Eliminating the *Seagate* test would also encourage forum shopping and discourage companies from reading patents.

III. Stryker has not identified any reason why this Court need decide the proper appellate standard of review for willfulness or the level of evidence needed to establish it—neither issue is dispositive to this case or its companion.

If this Court considers the issues, both de novo review and the clear-and-convincing-evidence standard should be retained. The de novo standard flows naturally from the legal nature of the objective recklessness inquiry, as well as from the punitive nature of an enhanced damages award. The clear-and-convincing-evidence standard likewise follows from § 284's purpose of punishing only the most reprehensible infringers. The evidentiary requirement has been in place for over three decades and was implicitly reaffirmed by Congress when it reenacted § 284 in the AIA. Accordingly, there is no reason to disturb the judgment of the court of appeals.

ARGUMENT

I. AN AWARD OF ENHANCED DAMAGES REQUIRES A THRESHOLD SHOWING OF WILLFULNESS

A. The Willfulness Requirement Was Well-Established Long Before § 284's Enactment

Congress was not writing on a blank slate when it enacted 35 U.S.C. § 284. For over 150 years, this Court and others have required a threshold finding of willful or wanton infringement before the punitive sanction of enhanced patent damages could be awarded. Congress incorporated that settled interpretation into § 284. Congress then reinforced the point in 2011 when it reenacted § 284 and added a separate provision addressing the proof required to establish willfulness with full awareness of the Federal Circuit's *Seagate* decision and the intent that it would remain the law.

1. This Court first emphasized the high bar for awarding enhanced patent damages more than 150 years ago. In *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480, 488-489 (1854), this Court stated that enhanced damages should be awarded only in limited circumstances and reserved for the most wanton infringers. This Court described the earlier Patent Act of 1800, which had made treble damages mandatory in all infringement cases, as "manifestly unjust" because it left ordinary infringement defendants "liable to the same penalty with the wanton and malicious pirate." *Id.* Under the 1836 Act at issue in *Seymour*, in contrast, the trial court could "inflict vindictive or punitive damages" only for a "wanton or malicious" patent-infringement "injury." *Id.*; *see also Safeco Ins. Co. of Am.* v. *Burr*, 551 U.S. 47, 57 (2007) (noting that "the terms 'willful,' 'wanton,' and 'reckless' ... have been treated as meaning the same thing, or at least as com-

ing out at the same legal exit" (quoting Keeton et al., *Prosser and Keeton on Law of Torts* § 34, at 212 (5th ed. 1984) (*Prosser and Keeton*) (quotation marks omitted))).

The Court similarly emphasized the limited circumstances that might justify enhanced damages in a pair of cases decided the same year as *Seymour*. In *Corning* v. *Burden*, 56 U.S. (15 How.) 252, 271 (1854), the Court observed that where a "defendant has acted in good faith, and is not a wanton infringer of the plaintiff's rights," it should not be subject to "the same stringent and harsh rule of damages which might justly be inflicted on a mere pirate." In *Livingston* v. *Woodworth*, 56 U.S. (15 How.) 546, 560 (1854), the Court characterized enhanced damages as a "penalty" and held that, even assuming they were available in equity, there was "no ground" to inflict them, because the defendants were "in no correct sense [] wanton infringers." *Id.*

This Court considered enhanced damages several more times during the nineteenth century and repeatedly made clear that they should be reserved for a narrow class of highly culpable offenders. For example, the Court explained that enhanced damages are intended to "punish[]" patent infringement occurring "under aggravated circumstances." *Dean* v. *Mason*, 61 U.S. (20 How.) 198, 203 (1858). The Court similarly described enhanced damages as fundamentally "punitive." *See Tilghman* v. *Proctor*, 125 U.S. 136, 143-144 (1888); *Root* v. *Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 196 (1882); *see also Cincinnati Siemens-Lungren Gas Illuminating Co.* v. *Western Siemens-Lungren Co.*, 152 U.S. 200, 204 (1894) (applying *Seymour* to a contract dispute involving patented goods, and reasoning that there was "nothing that suggests punitive damages"

where the defendant's conduct was not "wanton and willful"); *see generally* U.S. Br. 13.

Indeed, although Stryker argues (at 30) that "heightened culpability was treated as a sufficient condition for enhancing damages, but not a necessary one," no case from this Court has ever actually upheld an award of enhanced patent damages on any other basis.

2. Following this Court's guidance, the courts of appeals repeatedly held that an award of enhanced damages required a threshold showing of willfulness.

Rockwood v. *General Fire Extinguisher Co.*, 37 F.2d 62 (2d Cir. 1930), is representative of the case law in the 50 years preceding enactment of 35 U.S.C. § 284 in 1952. Although the district court had trebled the plaintiff's damages, the Second Circuit reversed the trebling because the infringement "was not wanton and deliberate." *Id.* at 63, 66. As proof that the infringement was not willful, the Second Circuit stated that the "validity of the patent and its infringement was open to honest doubt." *Id.* at 66.

Similarly, in *Goodyear Tire & Rubber Co.* v. *Overman Cushion Tire Co.*, 95 F.2d 978, 986 (6th Cir. 1937), the Sixth Circuit held that the district court's punitive damages award rested on a finding of "conscious and deliberate" infringement that lacked evidentiary support. Without support for such a finding, the Sixth Circuit ordered that "no punitive damages shall be assessed." *Id.*

Other courts of appeals followed a similar approach. *E.g.*, *Baseball Display Co.* v. *Star Ballplayer Co.*, 35 F.2d 1, 4 (3d Cir. 1929) (punitive damages allowed "because of the deliberate and willful infringement"); *Sutton* v. *Gulf Smokeless Coal Co.*, 77 F.2d 439, 441 (4th

Cir. 1935) (per curiam) (finding of "willful and deliberate" infringement justified "trebling the amount awarded as damages"); *Filer & Stowell Co.* v. *Diamond Iron Works*, 270 F. 489, 490 (7th Cir. 1921) (enhanced damages warranted for "flagrant and willful" infringement); *Austin-W. Rd. Mach. Co.* v. *Disc Grader & Plow Co.*, 291 F. 301, 302-305 (8th Cir. 1923) (no error in increasing damages where the infringement was "deliberate and wanton"); *New England Fibre Blanket Co.* v. *Portland Telegram*, 61 F.2d 648, 649 (9th Cir. 1932) (acknowledging enhanced damages are available for "deliberate and willful" infringement); *see also Egry Register Co.* v. *Standard Register Co.*, 23 F.2d 438, 443 (6th Cir. 1928) ("no basis" for a finding of willfulness, and thus no way to "justify the statutory increase of damages," where "[b]oth as to validity and infringement there was doubt"); *Consolidated Rubber Tire Co.* v. *Diamond Rubber Co.*, 226 F. 455, 463 (S.D.N.Y. 1915) (L. Hand, J.) (characterizing enhanced damages as punitive and declining to award punitive damages for the period where the infringement was not "wanton"—that is, "where the validity of the patent remained open to honest question"), *aff'd*, 232 F. 475 (2d Cir. 1916).

3. Stryker attempts to muddy the state of pre-1952 law by arguing (at 30-32) that enhanced damages were also available for non-punitive purposes and therefore did not require a showing of willfulness. But Stryker's cited authorities are inapposite. *Day* v. *Woodworth*, 54 U.S. (13 How.) 363 (1852), was a common law trespass case that only mentioned patent infringement damages in the course of deciding whether actual damages could be increased in a trespass action. *See* 7 *Chisum on Patents* § 20.03 n.111 (2014) (describing *Day*'s patent discussion as "pure dictum"). The passing statements regarding enhanced damages in

Clark v. *Wooster*, 119 U.S. 322 (1886), and *Teese* v. *Huntingdon*, 64 U.S. (23 How.) 2 (1860), were also dicta that was not carried forward by later cases. More fundamentally, the dicta in all three cases related to recovering attorneys' fees and costs. *Day*, 54 U.S. (13 How.) at 372 ("counsel-fees and expenses"); *Teese*, 64 U.S. (23 How.) at 8 ("Counsel fees"); *Clark*, 119 U.S. at 326 ("the expense and trouble the plaintiff has been put to"). Any suggestion that enhanced damages can be stretched to cover such expenses cannot survive Congress's decision to channel any non-punitive enhancements into a separate provision authorizing attorneys' fees. *See* 35 U.S.C. § 285; *cf.* U.S. Br. 21 n.19.

Stryker also contends (at 27-28) that courts historically analyzed enhanced damages under a totality-of-the-circumstances test. But the principal case Stryker cites for this proposition made clear that the relevant "circumstances" must justify "inflict[ing] *vindictive or punitive damages*." *Tilghman*, 125 U.S. at 143-144 (emphasis added). *Tilghman* is thus fully consistent with the willfulness requirement applied below.

Furthermore, Stryker elides the important distinction between the threshold question of whether a case is *eligible* for enhancement and the separate question of *how much* enhanced damages are appropriate. The second question necessarily entails an exercise of discretion in light of multiple factors, but that inquiry should not be confused with the threshold question of eligibility, which—as discussed above—historically was not relegated to open-ended discretion, but rather required proof of willfulness. *See supra* pp. 11-14.

Finally, Stryker's heavy reliance (at 26-33) on nineteenth century and district court cases largely ignores the wealth of court of appeals precedent from the first

half of the twentieth century requiring a threshold showing of willfulness. *Supra* pp. 13-14. To the extent there were earlier outliers or variations in the formulations used, precedent from the courts of appeals clarified the law in the intervening years before Congress enacted § 284.

4. In contrast to Stryker, the government recognizes (at 10-11) that the early cases did not endow district courts with unbridled discretion to impose enhanced damages without a threshold showing of heightened culpability. The government simply advances an alternative phrasing of the threshold requirement: the "infringement" must be "marked by egregious misconduct." U.S. Br. 11. But the government's own citations show (at 14) that the predominant formulation in the decades immediately preceding § 284's enactment was willfulness. Willfulness was also the term Members of Congress and the Executive Branch used to describe the high threshold they wanted to maintain when enacting § 284. *Infra* pp. 17-18.

Regardless of which term is used, the basic point is the same: By the time Congress enacted § 284 in 1952, a century of case law had established that enhanced damages were not a tool to be wielded in each district judge's broad discretion; rather, they were punitive sanctions reserved for rare cases that met a stringent standard of eligibility. *See, e.g.*, AIPLA Br. 3-12 ("This Court has been consistent in construing the Patent Act to require willful infringement as a predicate to enhanced damages ever since *Seymour* v. *McCormick* was decided in 1854."); Askeladden Br. 7-9 ("[O]ver a course of decades, courts repeatedly rejected increased damages in cases where infringement was not willful."); IP Professors Br. 3 ("[The] authority to increase damages is used only in situations where the infringer en-

gaged in egregious or especially wrongful infringement of a patent, a concept generally known as willful infringement."); Public Knowledge Br. 8 ("In *Seymour* v. *McCormick*, this Court recognized a willfulness requirement in the then-prevailing enhanced damages statute. ... This willfulness requirement would remain undisturbed for over a century.").

B. Congress Did Not Change The Settled Judicial Interpretation Requiring Willfulness When It Enacted § 284

The 1946 and 1952 Patent Acts were enacted against the specific understanding that enhanced damages are appropriate only after a threshold showing of willfulness.

The Patent Act of 1946 significantly revised the scope of utility patent damages by eliminating the historic remedy of disgorging the infringer's profits. *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 505-507 (1964) (citing Pub. L. No. 79-587, 60 Stat. 778 (1946)). Congress also added the first attorneys' fees provision to the Patent Act. *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014). However, Congress did not change the enhanced damages provisions, on the stated understanding that those provisions required willful infringement. Representative Lanham explained that "[t]he inventor is not limited to merely collecting the royalty. I would say that in the case of an innocent infringer ... that it would be unreasonable to collect from him more than the reasonable royalty ... [b]ut if there has been a willful infringement, then the damages as set out in the bill can be collected." 92 Cong. Rec. 1857 (1946). Similarly, Representative Cravens noted that enhanced "damages

could still be recovered under the existing law in the case of willful infringement." *Id.*

The Executive Branch shared this view. Department of Justice representative John Stedman testified before the House Committee on Patents that an infringer "is faced with the threat of exemplary or punitive damages *in the case of willful infringement.*" *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 18 (1946) (emphasis added). Condor C. Henry, the Assistant Commissioner of Patents, likewise explained that the 1946 Act incorporated "present law" that "[i]f the infringement complained of is wanton or in reckless disregard of complainants' rights, under this bill he may be allowed punitive damages for the infringement ... sufficient to punish the respondent and to deter others from committing like offenses of infringement." *Id.* 9-10; *see also Safeco*, 551 U.S. at 57 ("the terms 'willful,' 'wanton,' and 'reckless' ... have been treated as meaning the same thing").

The Patent Act of 1952 also incorporated this settled understanding of the limits on enhanced damages. Its damages provision simply "consolidate[d] provisions in two sections of the old statute" relating to damages while simplifying their language. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc'y 161, 216 (1993) (reprinted from 35 U.S.C.A. (1954)); *see also* H.R. Rep. No. 82-1923, at 29 (1952) (noting that § 284 "consolidates the provisions relating to damages" with certain wording changes); 98 Cong. Rec. 9097 (1952) (Sen. Wiley) (describing bill immediately before passage as largely a "codification" or "restatement" of existing law).

This Court "assume[s] that, when Congress enacts statutes, it is aware of relevant judicial precedent," *Merck & Co.* v. *Reynolds*, 559 U.S. 633, 648 (2010), and "expect[s] its enactment[s] to be interpreted in conformity with them," *North Star Steel Co.* v. *Thomas*, 515 U.S. 29, 34 (1995). By the time Congress enacted § 284, a century of case law had made clear that enhanced damages were reserved for the most wanton and culpable conduct—specifically, willful infringement. Congress gave no indication that it intended to deviate from that longstanding rule.

Accordingly, when Congress provided that "the court may increase the damages up to three times the amount found or assessed," 35 U.S.C. § 284, it did not dispense with "any specific condition that must be satisfied before courts may award enhanced damages," as Stryker contends (at 18). Rather, it left the established restrictions on such damages in place.

C. Courts Continued Applying The Willfulness Requirement After § 284's Enactment

Courts continued to apply the willfulness requirement after § 284 was enacted. For example, the leading case from the Seventh Circuit concluded that § 284 allowed courts to assess punitive damages only for "conscious and willful infringement." *Union Carbide Corp.* v. *Graver Tank & Mfg. Co.*, 282 F.2d 653, 673-675 (7th Cir. 1960). In *Union Carbide*, after concluding that the defendant had infringed a patent for a chemical agent used in welding, the district court increased the damages on the basis of, among other things, the "long and expensive" litigation history in the case, but did not find that the infringement was willful. *Id.* at 673. The Seventh Circuit rejected the district court's justifications for enhancing damages, for "it is only on the basis

of conscious and willful infringement that exemplary or punitive damages are allowed." *Id.* at 675.[2]

Other courts of appeals followed *Union Carbide*. The Sixth Circuit held that "to support such an increased, punitive award there must be a finding that the infringement was wilful." *Eltra Corp.* v. *Basic Inc.*, 599 F.2d 745, 757 (6th Cir. 1979). The Ninth Circuit stated that "willful, intentional and deliberate" infringement is "subject to an award of increased damages" and infringement is not willful "where the validity of the patent and any possible infringement is open to honest doubt." *Wilden Pump & Eng'g Co.* v. *Pressed & Welded Prods. Co.*, 655 F.2d 984, 988 (9th Cir. 1981) (internal quotation marks omitted). The Fifth Circuit held that trebling damages under § 284 "is within the discretion of the District Court when the infringement is willful and wanton." *Baumstimler* v. *Rankin*, 677 F.2d 1061, 1073 (5th Cir. 1982). And the Tenth Circuit explained that "[c]ourts have limited the increase [of damages under § 284] to instances in which the infringement was willful." *Lam, Inc.* v. *Johns-Manville Corp.*, 668 F.2d 462, 474 (10th Cir. 1982).[3]

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[2] *Union Carbide* distinguished an outlier district court case that Stryker cites. *Compare* 282 F.2d at 675, *with* Stryker Br. 27-28, 31 (citing *Activated Sludge* v. *Sanitary Dist.*, 64 F. Supp. 25 (N.D. Ill. 1946)).

[3] Stryker cites (at 28, 37 n.6) *American Safety Table Co.* v. *Schreiber*, 415 F.2d 373 (2d Cir. 1969), but that case supports Zimmer. In *American Safety*, the Second Circuit agreed with the district court that some amount of enhanced damages was appropriate because the defendant had infringed with "deliberation and abandon." *Id.* at 379 n.11; *see also id.* at 378 (noting that "[t]he special master properly recognized that '[a]wards of increased damages are made ... only when a clear showing of deliberate infringement justifies the exercise of the Court's discretion'").

This Court did not directly address the standard for enhanced damages after § 284 was enacted, but it did briefly refer to the issue on two occasions. In *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. at 508, the Court stated that a plaintiff could "recover punitive or 'increased' damages" under § 284 for "willful or bad-faith infringement." Stryker cites *Aro* (at 34) as evidence that willfulness is not a prerequisite to enhancement, but the case, which was about contributory infringement and did not involve enhanced damages, did not purport to change the standard. Moreover, *Aro* was followed by *Dowling* v. *United States*, 473 U.S. 207, 227 n.19 (1985), which stated that "[a]mong the available remedies" for patent infringement "are treble damages *for willful infringement.*" (Emphasis added.) *Dowling* described no other scenario under which enhanced damages could be awarded. Certainly, neither *Dowling* nor *Aro* supports Stryker's argument (at 34) that "the wrongfulness of a defendant's conduct was not a prerequisite to enhancement."

While the district court had noted that the infringement did not amount to "the *ultimate* in willfulness," this statement merely explained why it had limited the *amount* of enhanced damages. *See id.* at 379 n.11 (awarding a smaller enhancement of damages than the maximum) (emphasis added). It did not purport to dispense with the willfulness requirement.

Stryker also (at 30, 44) cites *Trio Process Corp.* v. *L. Goldstein's Sons, Inc.*, 638 F.2d 661 (3d Cir. 1981), but that case merely stated in dicta the court's view that enhanced damages can be remedial rather than punitive. *Trio Process*'s actual holding is fully consistent with the decision below: the district court was correct to enhance damages due to defendants' "willful infringement" and such damages were "punitive." *Id.* at 663-664.

D. The Federal Circuit Temporarily Deviated From The Willfulness Requirement In *Underwater Devices*

Until 1983, "it remained the general rule ... that a plaintiff could not obtain an award of increased damages unless it proved by clear and convincing evidence that the defendant consciously and willfully copied the patented invention." Powers & Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 Syracuse L. Rev. 53, 70 (2001). However, shortly after the Federal Circuit was created, it changed course. In *Underwater Devices Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983), the court held that enhanced damages could be awarded based on a threshold finding of negligence—*i.e.*, where the potential infringer had actual notice of another's patent rights and failed to exercise due care in determining whether or not his conduct was infringing.

The *Underwater Devices* regime was widely condemned. The Federal Trade Commission noted that *Underwater Devices* "works to undermine the patent system's disclosure goals by discouraging third parties from reading patents" and "introduces unnecessary uncertainty, raises risks, and reduces efficiency." FTC, *To Promote Innovation*, ch. 5, at 30 (Oct. 2003). Companies that did not stop reading patents often had to pay for opinions of counsel and waive privilege to shield themselves from claims for treble damages. Lemley & Tangri, *Ending Patent Law's Willfulness Game*, 18 Berkeley Tech. L.J. 1085, 1087, 1092 (2003). Commentators also noted that "[a]s a result [of the *Underwater Devices* regime], willful infringement is pleaded so often that judges must think it is a single word." Taylor & Von Tersch, *A Proposal to Shore up the Foundations*

of Patent Law that the Underwater *Line Eroded*, 20 Hastings Comm. & Ent. L.J. 721, 724 (1998).

Despite *Underwater Devices*, other institutions continued to use the well-established willfulness standard. As noted, this Court's discussion of enhanced damages in 1985 stated that the remedies for patent infringement include "treble damages *for willful infringement*." *Dowling*, 473 U.S. at 227 n.19 (emphasis added).

Congress also continued embracing the historic willfulness requirement. For example, in explaining why the Senate Judiciary Committee had rejected an amendment to the Patent and Plant Variety Protection Remedy Clarification Act that would have barred courts from imposing enhanced damages on States, the Committee Report noted that "[t]he standard for receiving treble damages in a patent suit is very difficult to attain ... [because a] plaintiff must prove that the infringement was willful under 35 U.S.C. [§] 284." S. Rep. No. 102-280, at 10-11 (1992); *cf. Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 630-631 (1999) (striking down provision that States could be sued for patent infringement as an improper abrogation of state sovereign immunity).

The Executive Branch likewise adhered to the view that willfulness was a prerequisite to enhanced damages. For example, in *Florida Prepaid*, the United States argued that enhanced damages can be awarded "only in cases of willful infringement" and that "[t]he standard for receiving treble damages in a patent suit is very difficult to attain, and such awards are made only in the most flagrant cases." U.S. Br. 45, *Florida Prepaid*, No. 98-531 (internal quotation marks omitted).

E. The Federal Circuit Restored The Willfulness Requirement And Brought Predictability To The Law In *Seagate*

The Federal Circuit eventually overruled *Underwater Devices* in two stages. In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH* v. *Dana Corp.*, 383 F.3d 1337, 1347 (Fed. Cir. 2004) (en banc), the court held that "the failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable."

Then, in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), the Federal Circuit expressly overruled *Underwater Devices*. Based on the history of § 284 and this Court's precedents, the en banc court held that an "award of enhanced damages requires a showing of willful infringement." *Id.* at 1368.

The en banc court then looked to the "well-established meaning" of willfulness "in the civil context" to provide additional guidance. 497 F.3d at 1370. In particular, the Federal Circuit focused on this Court's decision in *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007), which "addressed the meaning of willfulness as a statutory condition of civil liability for punitive damages." *Seagate*, 497 F.3d at 1370. *Seagate* noted that "the general understanding of willfulness in the civil context ... requires at least a showing of objective recklessness." *Id.* at 1371. This Court's decision in *Safeco* had emphasized that "[w]hile 'the term recklessness is not self-defining,' the common law has generally understood it in the sphere of civil liability as conduct violating an objective standard." *Safeco*, 551 U.S. at 68. Critically, *Safeco* had also rejected the argument that subjective bad faith was sufficient to es-

tablish willfulness in the absence of objectively unreasonable conduct:

> To the extent that [plaintiffs] argue that evidence of subjective bad faith can support a willfulness finding even when the company's reading of the statute is objectively reasonable, their argument is unsound. Where, as here, the statutory text and relevant court and agency guidance allow for more than one reasonable interpretation, it would defy history and current thinking to treat a defendant who merely adopts one such interpretation as a knowing or reckless violator. Congress could not have intended such a result for those who followed an interpretation that could reasonably have found support in the courts, whatever their subjective intent may have been.

Id. at 70 n.20.

Based on *Safeco* and the authority it cited, the Federal Circuit articulated a two-part test to determine eligibility for enhanced damages: First, "to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Seagate*, 497 F.3d at 1371. Second, "the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.*

Far from lacking grounding in the statute's "history" or "purposes," Stryker Br. 45, the Federal Circuit's holding in *Seagate* restated the 150-year-old precept of patent law that willfulness is a prerequisite for en-

hanced damages. And it articulated a predictable standard for making that determination based on settled precedent and principles. *See infra* pp. 34-51.

F. Congress Retained The *Seagate* Standard When It Reenacted § 284 In The Leahy-Smith America Invents Act Of 2011

Any doubt about the *Seagate* test was dispelled in Congress's most recent major patent legislation. The text of the Leahy-Smith America Invents Act expressly references willfulness, providing that the failure to "obtain the advice of counsel with respect to any alleged infringed patent ... may not be used to prove that the accused infringer *willfully* infringed." 35 U.S.C. § 298 (emphasis added). This provision would make little sense if Congress did not envision willfulness as a threshold requirement for enhanced damages, since willfulness does not figure into the statute in any other way.

More broadly, the statutory history makes clear that Congress was aware of the governing *Seagate* test and made a deliberate decision to retain it. In an early iteration of the AIA in 2009, the Senate Judiciary Committee supported a proposal that would have codified a test similar to—but more rigid than—*Seagate*. *See* S. Rep. No. 111-18, at 94-95 (2009). The proposed language would have limited district court discretion to determine whether a particular infringer had acted in an objectively and subjectively unreasonable way to a series of enumerated circumstances. *Id.* This new test was ultimately abandoned and § 284 was reenacted with almost identical wording as appeared in the 1952 Patent Act, save a minor, technical amendment unrelated to enhanced damages. *See* Pub. L. No. 112-29, § 20(j)(1), 125 Stat. 284, 335 (2011). As Senator Kyl ex-

plained on the Senate floor, "the present bill ... makes no changes to the standard for awards of treble damages. ... By dropping the 2009 bill's restrictions on treble-damages awards, the present bill preserves these awards' role as a meaningful deterrent to reckless or wanton conduct." 157 Cong. Rec. 3427 (2011).

"Congress is presumed to be aware of a[] ... judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change." *Lorillard* v. *Pons*, 434 U.S. 575, 580 (1978). Even without that presumption, the legislative history makes clear that, when considering the AIA, multiple members of Congress recognized that recent Federal Circuit decisions—including *Seagate*—had addressed many of their concerns about patent damages and that reform in that area was not necessary.

For example, the House Committee on the Judiciary's Report on the AIA explained that the move "to modernize our patent laws has found expression in the courts .... Recent decisions by the Federal Circuit reflect a ... trend in response to the[] concerns" that "questionable patents are too easily obtained and are too difficult to challenge." H.R. Rep. No. 112-98, pt. 1, at 39 (2011). To support this point, the Report cited *Seagate* for the proposition that "willful infringement requires at least a demonstration of objectively reckless behavior." *Id.* at 39 n.9.

Several Senators made similar statements. For example, Senator Bennet explained on the Senate floor that "[t]he Federal Circuit Court of Appeals has made significant progress on damages and venue issues. The courts are moving in the right direction, and I believe it is wiser to allow this process to run its course than to add a new layer of laws that could only serve to confuse

patent litigants." 157 Cong. Rec. 2859 (2011). Relatedly, Senator Leahy emphasized that "[w]hen we began the patent reform debate [in 2005], there was ... a significant concern that costs and uncertainty associated with patent litigation had been escalating .... Fortunately, the courts have made great strides in addressing this issue, and there is general consensus that legislation need not and, in fact, should not affect the law of damages as a result." *Id.* at 3401; *see also id.* at 2857 (Senator Leahy noting that "[t]he courts have been making good progress in developing the law ... and I do not believe patent reform should interfere with this progress ... on damages").

Seagate was also favorably discussed in two different hearings of the House Committee on the Judiciary related to the AIA. During a hearing focused on recent patent case law, multiple witnesses testified that *Seagate* had resolved the problems created by *Underwater Devices*.[4] And at an earlier, more general hearing, Members of Congress were informed that "legislation pertaining to willfulness is ... unnecessary" because "the Federal Circuit has clarified the standard of

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[4] *See Review of Recent Judicial Decisions on Patent Law: Hearing Before H. Subcomm. on Intellectual Prop., Competition, & the Internet*, 112th Cong. 14, 48, 57 (2011) (testimony of Andrew J. Pincus, Mayer Brown LLP) ("The low standard for proof of willfulness, which results in the imposition of multiple damages ... which was ... the subject of a lot of the Committee's deliberations, w[as] overturned by the Federal Circuit in the ... *Seagate* decision[]."); *id.* 31-32 (testimony of Dennis Crouch, Assoc. Prof. of Law, Univ. of Missouri) ("[D]ecisions on the particular issues have gone the way that the legislation was headed .... [W]ith enhanced damages for willful infringement ... the courts limited the scope of that....").

willful infringement" in *Seagate*.[5] In both hearings, committee leadership recognized that the courts had already addressed many of the legislature's concerns regarding willfulness. For example, Representative Conyers, the ranking member of the House Judiciary Committee, explained that "the courts have helped us ... in ferreting out a lot of issues that we can take mostly off the table," including "willfulness." *See Recent Judicial Decisions Hearing*, *supra* n.4, at 3. Similarly, Representative Goodlatte, chair of the Subcommittee on Intellectual Property, Competition, and the Internet, stated that "[s]ince we began debating comprehensive patent reforms over half a decade ago, the Federal courts have issued numerous opinions that touch on some of the very reforms we have been working on, including ... willfulness." *Crossing the Finish Line Hearing*, *supra* n.5, at 1.

Stryker's only response to this substantial legislative history (Br. 53-54; *see also* U.S. Br. 27 n.21) is its observation that the Senate declined to enact the proposed amendment to the AIA that contained a more rigid version of the *Seagate* test. But the very document Stryker cites explains that opposition to that amendment sprang from the fact that "the new text does not appear to fully assimilate the teachings of *Seagate*" and would, *inter alia*, return the country "to the pre-*Seagate* world of inquiries into the infringer's subjective intent and the cottage industry of opinion counsel." S. Rep. No. 111-18, at 60 (minority views of Sens. Kyl, Feingold, and Coburn).

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[5] *Crossing the Finish Line on Patent Reform: Hearing Before the H. Subcomm. on Intellectual Prop., Competition, & the Internet*, 112th Cong. 18 (2011) (testimony of Carl Horton, Chief IP Counsel, General Electric).

In sum, the courts and Congress have long understood an award of enhanced patent damages to require a threshold showing of willfulness, and Congress incorporated that settled meaning by enacting and reenacting § 284.

II. STRYKER'S AND THE GOVERNMENT'S ARGUMENTS FOR ABANDONING *SEAGATE* ARE UNAVAILING

A. *Octane* And *Highmark* Do Not Control This Case

Stryker's argument for abandoning *Seagate* relies heavily on *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and *Highmark Inc.* v. *Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014). Stryker Br. 15-26. Those decisions laid out, respectively, the appropriate test and standard of review for determinations under 35 U.S.C. § 285, a fee-shifting statute that awards attorneys' fees to a prevailing party in "exceptional cases." That analysis cannot be applied to § 284 for several reasons.

First, Congress enacted § 284 against the backdrop of a longstanding willfulness requirement for enhanced damages and later reenacted it in the AIA with specific knowledge of the *Seagate* decision. By contrast, the attorneys' fees provision in *Octane* had no comparable historical backdrop that would compel a threshold enhanced culpability requirement. Compared to § 284, § 285 is a relatively young statute; its earliest incarnation dates only to 1946. *See Octane*, 134 S. Ct. at 1753. Until then, there had been no statutory mechanism for awarding attorneys' fees to a prevailing party in a patent infringement case. *Id.* Congress amended § 285 six years later to provide that attorneys' fees could only be awarded "'in exceptional cases,'" but this Court has explained that the amendment was "for purposes of

clarification only." *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 653 n.8 (1983). The contrast between the settled and longstanding jurisprudence governing enhanced damages and the absence of a comparable history for attorneys' fees distinguishes *Octane* and strongly supports maintaining the willfulness requirement that was well established when Congress enacted and reenacted § 284. *See supra* pp. 13-18, 24-29.

This distinction also answers Stryker's reliance (at 19-20) on *General Motors*. That case dealt with the prejudgment interest provision of § 284, not the enhanced damages provision. Like § 285, the prejudgment interest provision was first added in 1946 and recodified in 1952. *General Motors*, 461 U.S. at 653. Because the prejudgment interest provision had only recently been enacted, this Court made clear that there was no judicial gloss to take into account. *Id.* ("This is not a case in which Congress has reenacted statutory language that the courts had interpreted in a particular way.").

Second, the punitive purpose of § 284's enhanced damages provision fundamentally distinguishes it from § 285, which allows attorneys' fees to be awarded as compensation, not punishment. Enhanced damages are clearly a form of punitive damages, as this Court recognized over 150 years ago in *Seymour*. 57 U.S. (16 How.) at 489 (a district court's decision to "trebl[e] the actual damages found by the jury" is an exercise of the court's "power to inflict vindictive or punitive damages"). More recently, this Court has reaffirmed that § 284's enhanced damages provision is fundamentally "punitive." *See, e.g.*, *Florida Prepaid*, 527 U.S. at 648 n.11 (noting "the remedies available to plaintiffs in infringement actions, *which include punitive damages* and attorneys' fees, see 35 U.S.C. §§ 284, 285" (empha-

sis added)); *see also Exxon Shipping Co.* v. *Baker*, 554 U.S. 471, 506-507 (2008) (listing § 284 as an example of a federal statute that "peg[s] punitive to compensatory damages using a ... maximum multiple"); *Aro*, 377 U.S. at 508 (§ 284's "trebling provision" provides for "punitive ... damages"). Numerous courts of appeals have reached the same conclusion. *E.g.*, *Sensonics, Inc.* v. *Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996) ("Section 284['s] ... enhanced damages are punitive, not compensatory."); *Eltra Corp.* 599 F.2d at 757 (describing § 284 damages as "an increased, punitive award"); *Union Carbide*, 282 F.2d at 673 (describing enhanced damages under § 284 as "exemplary, sometimes referred to as punitive, damages").

The opposite is true of attorneys' fees under § 285, which are intended to compensate the prevailing party. *See, e.g.*, *Knorr-Bremse*, 383 F.3d at 1347; IPO Br. 5; AIPLA Br. 23-24. While enhanced damages are intended to be "vindictive," focusing on the culpability of the infringer, *see Seymour*, 57 U.S. (16 How.) at 489, a fee award under § 285 ensures that the "injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed," *Mathis* v. *Spears*, 857 F.2d 749, 753 (Fed. Cir. 1988).[6]

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[6] The punitive nature of § 284 also helps explain why the automatic trebling provisions of statutes like the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. § 1964, and the Clayton Act, 15 U.S.C. § 15(a), have no relevance here. Not only do those statutes generally require intentional and substantial misconduct before liability can be found (in contrast to patent infringement's strict liability standard), but "the carrot of treble damages" is intended primarily to encourage private enforcement. *Agency Holding Corp.* v. *Malley-Duff & Assocs.*, 483 U.S. 143, 151 (1987); *see also* U.S. Br. 17 n.14 (distinguishing stat-

Stryker's suggestion (at 18) that enhanced damages might be as freely or even more freely available than attorneys' fees overlooks this fundamental difference in purpose. Punitive enhanced damages are appropriately reserved for the rare circumstances in which potentially massive baseline damages, attorneys' fees, and injunctive relief are insufficient to deter objectively unreasonable and blameworthy misconduct. *Cf. State Farm Mut. Auto. Ins.* v. *Campbell*, 538 U.S. 408, 419 (2003) ("[P]unitive damages should only be awarded if the defendant's culpability, after having paid compensatory damages, is so reprehensible as to warrant the imposition of further sanctions to achieve punishment or deterrence.").

Third, § 284 differs from § 285 in that § 285's fees provision is even-handed: it can benefit either the patentee or the defendant depending on which is the prevailing party. *See Raylon, LLC* v. *Complus Data Innovations, Inc.*, 700 F.3d 1361, 1372-1373 (Fed. Cir. 2012). In contrast, § 284 permits treble damages to be awarded only in the patentee's favor, and thus provides patent plaintiffs—often non-practicing entities—with tremendous, one-sided leverage. Askeladden Br. 16-19; Public Knowledge Br. 11-13.

Fourth, the test for attorneys' fees overruled in *Octane* and *Highmark*—while facially similar to the *Seagate* test—sprang from a fundamentally different doctrine. As Stryker acknowledges (at 16), the now-defunct § 285 test derived from the "sham" litigation

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utes that "mandate an award of treble damages in every case where the plaintiff establishes a violation of the relevant law" because Congress "inten[ded]" the Patent Act "to reserve enhanced damages for particularly egregious cases in which the defendant's conduct especially deserves punishment").

exception to *Noerr-Pennington* antitrust immunity. *Brooks Furniture Mfg., Inc.* v. *Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (citing *Professional Real Estate Investors* v. *Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993) (*PRE*)); *Octane*, 134 S. Ct. at 1757. In contrast, the *Seagate* test rests soundly on this Court's civil remedies jurisprudence. *See infra* pp. 34-44.[7]

This Court should decline Stryker's invitation to extend *Octane* and *Highmark* to the very different statute and policies that underlie § 284's enhanced damages provision.

B. The Objective Prong Of The *Seagate* Test Is Consistent With This Court's Jurisprudence And The Statute's Purposes

As a fallback to its general attack on any fixed standard of eligibility for enhanced damages, Stryker takes aim at the objective component of willfulness, which requires proof that the defendant acted despite an objectively high likelihood that its conduct infringed a valid patent. *See Seagate*, 497 F.3d at 1371. Contrary to Stryker's argument, the objective requirement is firmly grounded in this Court's precedent and the Patent Act's fundamental purpose of encouraging innovation while continuing to permit competition.

1. This Court's case law supports *Seagate*'s conclusion that willfulness requires "at least a showing of

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[7] *Seagate* itself does not cite *PRE*. While a later Federal Circuit decision interpreting § 284 did reference *PRE*, it did so only as part of an analogy listing multiple doctrines where an objective inquiry is treated as a legal question. *See Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs.*, 682 F.3d 1003, 1008 (Fed. Cir. 2012).

... recklessness," *Seagate*, 497 F.3d at 1371, which requires "conduct violating an objective standard," *Safeco*, 551 U.S. at 68; *infra* pp. 37-39. This Court has made clear that civil liability premised on willfulness is shown where an actor "either knew or showed reckless disregard for the matter of whether its conduct was prohibited by the [relevant] statute." *McLaughlin* v. *Richland Shoe Co.*, 486 U.S. 128, 133 (1988). In other words, "where willfulness is a ... condition of civil liability," this Court has generally understood it "to cover not only knowing violations of a standard, but reckless ones as well." *Safeco*, 551 U.S. at 57; *Trans World Airlines, Inc.* v. *Thurston*, 469 U.S. 111, 126 (1985) (adopting a "reckless disregard" minimum standard for willfulness). This rule is drawn from "common law usage, which treated actions in 'reckless disregard' of the law as 'willful' violations." *Safeco*, 551 U.S. at 57 (citing *Prosser and Keeton* § 34, at 212). Negligence or unreasonable behavior is not sufficient for a finding of willfulness. *McLaughlin*, 486 U.S. at 133.

The recklessness requirement has been applied to a wide range of punitive damages regimes. For example, the courts of appeals have repeatedly held that enhanced copyright damages may be awarded only after a showing of, at a minimum, reckless infringement. *See, e.g.*, *Yellow Pages Photos, Inc.* v. *Ziplocal, LP*, 795 F.3d 1255, 1271 (11th Cir. 2015); *Graper* v. *Mid-Continent Cas. Co.*, 756 F.3d 388, 394 (5th Cir. 2014); *Louis Vuitton Malletier, S.A.* v. *Akanoc Sols., Inc.*, 658 F.3d 936, 944 (9th Cir. 2011); *Island Software & Computer Serv., Inc.* v. *Microsoft Corp.*, 413 F.3d 257, 263 (2d Cir. 2005); *Lyons P'ship, L.P.* v. *Morris Costumes, Inc.*, 243 F.3d 789, 799 (4th Cir. 2001); *RCA/Ariola Int'l, Inc.* v. *Thomas & Grayston Co.*, 845 F.2d 773, 779 (8th Cir. 1988). Several of these courts drew their

standards for willfulness directly from *Safeco*, just as the Federal Circuit did in *Seagate*. *See, e.g.*, *Yellow Pages Photos*, 795 F.3d at 1271-1272; *Graper*, 756 F.3d at 394-395; *Seagate*, 497 F.3d at 1370-1371.

Similarly, this Court has held that a threshold showing of recklessness is required before punitive damages may be awarded for violations of the Fair Credit Reporting Act ("FCRA"), *Safeco*, 551 U.S. at 52, 57-58; the Age Discrimination in Employment Act, *Thurston*, 469 U.S. at 125-127; and 42 U.S.C. § 1983, *Smith* v. *Wade*, 461 U.S. 30, 51 (1983).

Stryker has no good response to this case law. Stryker cites *McLaughlin* (at 36) for the proposition that a district court ought to consider whether a defendant's conduct was willful or "more than negligent" merely "[a]s part of th[e] weighing" of various factors to determine "the wrongfulness of the defendant's conduct." But *McLaughlin* does not treat recklessness as a mere "aggravating factor" (Stryker Br. 36)—it requires recklessness as an *element* of a finding of willfulness. *McLaughlin*, 486 U.S. at 133.

Stryker also claims (at 22) that enhanced damages may be imposed in the copyright context whenever it is deemed "just" by the district court. But the two cases it cites refer to the *amount* of *statutory* damages imposed, not to the threshold question whether *enhanced* damages were *available*. *See Island Software*, 413 F.3d at 265 (noting "the wide discretion the Copyright Act affords the trial court *in setting the amount* of statutory damages" (emphasis added)); *Nintendo of Am., Inc.* v. *Dragon Pac. Int'l*, 40 F.3d 1007, 1010 (9th Cir. 1994) (similar). *Compare* 17 U.S.C. § 504(c)(1) ("[T]he copyright owner may elect ... to recover ... an award of statutory damages ... in a sum of not less than $750 or

more than $30,000 *as the court considers just.*" (emphasis added)), *with id.* § 504(c)(2) ("In a case *where ... the court finds[] that infringement was committed willfully*, the court in its discretion may increase the award of statutory damages to a sum of no more than $150,000." (emphasis added)).

Stryker also cites trademark law as a regime that does not require willfulness to award enhanced damages. But as Stryker concedes (at 21 & n.1), the purpose of the Lanham Act's enhanced damages provision is expressly compensatory. *See* 15 U.S.C. § 1117(a) ("[T]he court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. ... Such sum ... shall constitute compensation and not a penalty.").

2. Given that, at a minimum, a finding of recklessness is required to establish willfulness, it follows from settled precedent that the purported infringer's conduct must be viewed in the first instance through an objective lens. This Court has made clear that recklessness "in the sphere of civil liability [is generally] conduct violating an objective standard." *Safeco*, 551 U.S. at 68. That objective standard is satisfied where a defendant engages in "action entailing 'an unjustifiably high risk of harm that is either known or so obvious that it should be known.'" *Id.* This rule is well-established in this Court's case law and the common law. *See Farmer* v. *Brennan*, 511 U.S. 825, 836-837 (1994) ("civil-law recklessness" is an "objective test"); *Restatement (Second) of Torts* § 500 (1965) (reckless disregard when individual acts "knowing or having reason to know of facts which would lead a reasonable man to realize, not only that his conduct creates an unreasonable risk ... but also that such risk is substantially

greater than that which is necessary to make his conduct negligent"); *Prosser and Keeton* § 34, at 213 (objective standard must be applied in recklessness analysis); *see also* IPO Br. 4.

In *Safeco*, this Court explained that an entity subject to a statute "does not act in reckless disregard of it unless the action is not only a violation under a reasonable reading of the statute's terms, but shows that the company ran a risk of violating the law substantially greater than the risk associated with a reading that was merely careless." 551 U.S. at 69. Thus, even though this Court "disagree[d] with Safeco's analysis" of the statute, the Court concluded that punitive damages were inappropriate because Safeco's interpretation "ha[d] a foundation in the statutory text ... and a sufficiently convincing justification." *Id.* at 69-70.

The government (at 27) tries to distinguish *Safeco* based on its statement that willfulness has "'many meanings whose construction is often dependent on the context in which it appears.'" *Safeco*, 551 U.S. at 57. But regardless of what the term means in other contexts such as criminal law, the very sentence the government quotes makes clear that *Safeco* was defining willfulness in the context relevant here: "civil liability." *Id.*

The government also contends (at 28) that willfulness can be established by proof of "knowing misconduct." *See Safeco*, 551 U.S. at 71 (referring to "knowing violations" and "reckless ones as well"). If the government means to suggest that a subjective standard would satisfy *Safeco*, it is mistaken for reasons addressed below. In any event, that is not how Stryker presented its case. The jury was instructed that "[w]illfulness focuses on whether Zimmer acted reck-

lessly," JA462, and that the subjective component of the recklessness test could be met if Zimmer "should have known that its actions constituted an unjustifiably high risk of infringement of a valid patent," JA463. Stryker likewise argued in its closing statement that Zimmer "acted recklessly. That's what willful infringement is." Dist. Ct. Dkt. 389, at 86. Accordingly, the only question in this case is whether, when a patentee seeks enhanced damages under a *recklessness* theory, such a finding is precluded by objectively reasonable defenses that raise substantial questions of invalidity or noninfringement. Under *Safeco*, the answer is clearly "yes."

At any rate, the government is wrong to the extent it seeks to open the door to a subjective "knowing misconduct" test in future cases. *Safeco* (and, by extension, *Seagate*) subsumed the issue of knowledge within a single test examining whether "'an unjustifiably high risk of harm'" was "'either known or so obvious that it should have been known.'" *Safeco*, 551 U.S. at 68 (quoting *Farmer*, 511 U.S. at 836). That test permits liability based on either knowledge or reckless disregard, but in both instances requires at least a "high risk of harm, *objectively assessed*." *Id.* at 69 (quoting *Restatement (Second) of Torts* § 500 (1965)) (emphasis added).

Nowhere did *Safeco* hold that subjective intent alone could support civil liability for willfulness or wantonness in the absence of this objective analysis. To the contrary, *Safeco* expressly rejected as "unsound" the argument that it should "take[] into account" "evidence of subjective bad faith ... even when the company's reading of the statute is objectively reasonable." 551 U.S. at 70 n.20. This Court explained that where "more than one reasonable" analysis is possible, "Congress

could not have intended" to inflict punitive damages "for those who followed [a view] that could reasonably have found support in the courts, whatever their subjective intent may have been." *Id.*; *accord Hammer* v. *Sam's East, Inc.*, 754 F.3d 492, 502 (8th Cir. 2014) ("[T]he analytical framework set forth in *Safeco*" provides that "[w]hen a party has [acted] in an objectively reasonable manner, we need not consider facts relating to the party's subjective intent in assessing willfulness."); *Levine* v. *World Fin. Network Nat'l Bank*, 554 F.3d 1314, 1319 (11th Cir. 2009) ("*Safeco* makes clear that evidence of subjective bad faith cannot support 'a willfulness finding'" if the defendant acted in an objectively reasonable manner).

More generally, this Court has approved of objective tests because of their predictability and reduction of unnecessary litigation. For example, in *Harlow* v. *Fitzgerald*, 457 U.S. 800, 816-817 (1982), this Court rejected a subjective test for qualified immunity of government officials, noting the various and "substantial costs that attend the litigation of the subjective good faith of government officials," including "broad ranging discovery" into the motivations of officials serving discretionary functions. Replacing the subjective test with an objective "known or should have known" standard "avoid[ed] excessive disruption" and "permit[ted] the resolution of many insubstantial claims on summary judgment." *Id.* at 818. Similarly, this Court explained just last Term that the objective component of a recklessness test was essential because it was "workable" and could be uniformly applied. *Kingsley* v. *Hendrickson*, 135 S. Ct. 2466, 2474 (2015).

Safeco's objective analysis has been applied by the courts of appeals in a wide variety of legal contexts. For example, the D.C. Circuit explained that "reckless

disregard" under the False Claims Act requires proof that the defendant lacked an objectively reasonable interpretation of the Act. *See United States ex rel. Purcell* v. *MWI Corp.*, 807 F.3d 281, 290 (D.C. Cir. 2015) ("[S]ubjective intent—including bad faith—is irrelevant when a defendant seeks to defeat a finding of knowledge based on its reasonable interpretation...."). Similarly, the objective reasonableness test has been used for assessing liability under the Federal Trade Commission Act. *FTC* v. *Network Servs. Depot, Inc.*, 617 F.3d 1127, 1140 n.12 (9th Cir. 2010) ("reckless disregard" is "generally understood ... in the sphere of civil liability as conduct violating an objective standard"). *Safeco* has also been cited as the relevant standard for assessing recklessness in several other statutory schemes. *See, e.g.*, *Fryer* v. *A.S.A.P. Fire & Safety Corp.*, 658 F.3d 85, 91 (1st Cir. 2011) (Uniformed Services Employment and Reemployment Rights Act); *General Store, Inc.* v. *Van Loan*, 560 F.3d 920, 923-924 (9th Cir. 2009) (Gun Control Act). And numerous courts of appeals have held that a finding of recklessness under the Private Securities Litigation Reform Act requires proof of objective and subjective misconduct. *E.g.*, *City of Dearborn Heights Act 345 Police & Fire Retirement Sys.* v. *Waters Corp.*, 632 F.3d 751, 758 & n.3 (1st Cir. 2011) (citing cases from the Seventh and Ninth Circuits that "discuss[] the two part—objective and subjective—test for scienter").

Following *Safeco*, the Federal Circuit held that "to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Seagate*, 497 F.3d at 1371. That objectively high likelihood is determined by assessing whether the defendant present-

ed objectively reasonable noninfringement or invalidity defenses. *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs.*, 682 F.3d 1003, 1005-1006 (Fed. Cir. 2012).

Despite Stryker's and the government's assertions, this does not mean that a party can avoid enhanced damages by manufacturing a defense that is merely "minimally plausible," "not frivolous," or "not objectively baseless." Stryker Br. 48, 50; U.S. Br. 25-26.[8] Rather, the purported infringer must show that its defense is "objectively reasonable" and raises a "'substantial question' as to the validity or noninfringement of the patent." *See, e.g.*, *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs.*, 776 F.3d 837, 844 (Fed. Cir.), *cert. denied*, 136 S. Ct. 189 (2015); *Spine Sols., Inc.* v. *Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010).

Declining to impose the sanction of treble damages on defendants with objectively reasonable defenses is consistent with the broader premise in punitive damages jurisprudence that an award be based on "reprehensible" conduct that involves a "high degree of culpability." *BMW of N. Am., Inc.* v. *Gore*, 517 U.S. 559, 580 (1996); *see also State Farm*, 538 U.S. at 419 (punitive damages are reserved for "reprehensible" conduct); *Exxon*, 554 U.S. at 493 (punitive damages are reserved for "outrageous" or "deplorable" conduct); *Restatement of Torts* § 902 cmt. B (1938) ("Punitive damages are awarded only for outrageous conduct....").

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[8] The government's brief misleadingly implies that the Federal Circuit's decision in *Halo* merely concluded that Pulse's defenses were not "objectively baseless." U.S. Br. 25-26 (citing *Halo* Pet. App. 20a). In fact, while the district court used this terminology, the Federal Circuit cited and applied the proper standard just one page later. *Halo* Pet. App. 21a.

Even the government's preferred term—"egregious" conduct—has been interpreted to denote an objective test. *E.g.*, *Martinez Carcamo* v. *Holder*, 713 F.3d 916, 923 (8th Cir. 2013) (whether a federal agent's search was "egregious" for Fourth Amendment purposes does not "turn on a federal agent's personal state of mind"); *NLRB* v. *W.C. McQuaide, Inc.*, 552 F.2d 519, 527 (3d Cir. 1977) (an inquiry into the parties' subjective intent is distinct from an "objective standard" measuring the "egregious[ness]" of conduct).

Regardless of the precise formulation, conduct that is objectively reasonable simply is not "willful," "wanton," or "egregious" conduct warranting the punitive sanction of treble damages over and above the many other remedies afforded to patentees, including strict liability, single damages, injunctive relief, and attorneys' fees.

3. The objective nature of the inquiry mandated by *Safeco* and adopted in *Seagate* obviates the need to determine whether a defense was fully developed in advance of litigation. By definition, an objective standard is unconcerned with the defendant's subjective state of mind at the time of the alleged violation. Thus, when assessing recklessness, whether a defendant subjectively thought of a particular interpretation of the relevant patents when it decided on a course of conduct is not dispositive. Instead, the focus is on whether a reasonable actor in the defendant's shoes would have had an objectively reasonable defense.

The government suggests (at 30) that *Safeco* does not support consideration of objectively reasonable defenses unless they are fully developed before a patent is asserted in litigation, because *Safeco* was allegedly decided "on the understanding that the defendant, at the

time of its unlawful conduct, had actually relied on a reasonable (though erroneous) interpretation." Even were that factually correct—which is not clear, since the opinion contains no finding on the issue—it would not matter. As noted, an objective analysis does not by definition consider subjective factors, such as whether a particular actor formed a specific belief at a particular time. Moreover, *Safeco* did not approach the question as one of "good-faith reliance on legal advice," but instead focused on whether the defendants' "interpretation ... could reasonably have found support in the courts, whatever their subjective intent might have been." 551 U.S. at 70 n.20.

Two unanimous panels of the Third Circuit have concluded that the logic of *Safeco* compels consideration of defenses not fully developed at the time of the relevant conduct when determining objective reasonableness. Both panels held that a "reasonable reading" is a defense to an allegation of willfulness even where the defendant allegedly "'did not actually rely on *any* interpretation'" of the relevant provision and only developed the interpretation after allegedly violating the law. *Long* v. *Tommy Hilfiger U.S.A., Inc.*, 671 F.3d 371, 377 (3d Cir. 2012); *accord Fuges* v. *Southwest Fin. Servs., Ltd.*, 707 F.3d 241, 250-251 (3d Cir. 2012) (*Long* "expressly rejected the argument that a defendant is required to have a pre-litigation [defense] to avail itself of the *Safeco* 'reasonable interpretation' defense."). This conclusion logically followed from the objective nature of the *Safeco* standard. *Long*, 671 F.3d at 377 ("actual knowledge or intent ... is immaterial to the objective reasonableness analysis."); *Fuges*, 707 F.3d at 250 (argument about timing of a defense is "in essence, an assertion about the defendants' intent or subjective bad faith and, as such, [is] 'expressly foreclosed by

Safeco"'). The Eleventh Circuit has reached the same result. *See Levine*, 554 F.3d at 1319 (rejecting argument that defendant "recklessly violated the [FCRA] because [defendant's] records prove that [defendant]" believed its actions to be illegal at the time of the violation, where defendant advanced a different and objectively reasonable reading of the statute during litigation). We have identified no court that has disagreed with these cases' reading of *Safeco*; Stryker and the government certainly do not cite any.

C. The *Seagate* Test Advances The Purposes Of The Patent Act

The *Seagate* test, and its objective prong in particular, serve the Patent Act's goal of incentivizing innovation by balancing the right to exclude against concerns of free competition. *See, e.g., Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). Abandoning the objective prong would disserve the public interest in challenging bad patents, encourage abusive patent suits, create pressure to settle meritless claims, encourage forum shopping, and restore many of the problems associated with *Underwater Devices*—all in the service of solving an illusory problem.

1. *Seagate* encourages challenges to bad patents

The *Seagate* test serves the important policy function of encouraging challenges to patents that are questionable or stretched beyond their proper scope. "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee ... should be protected in his monopoly...." *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224, 234 (1892). Consequently, this Court has taken the "consistent view ... that the

holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly granted." *Blonder-Tongue Labs., Inc.* v. *University of Ill. Found.*, 402 U.S. 313, 349-350 (1971). This approach serves the public interest, as "the public has a paramount interest in seeing that patent monopolies are kept within their legitimate scope." *Medtronic, Inc.* v. *Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851-852 (2014) (internal quotation marks omitted); *accord* Public Knowledge Br. 23-24.

Protecting defendants who have objectively reasonable defenses from the risk of treble damages helps ensure that companies and individuals accused of infringement—often the only entities "with enough economic incentive to challenge" an aggressive patentee—will not be overly discouraged from standing up to abuses of the system. *See Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670-671 (1969); *accord Blonder-Tongue*, 402 U.S. at 345. Although the defenses may not ultimately succeed, a defendant should not be penalized for advancing reasonable arguments rather than immediately settling a claim, even if the defenses are developed after the patent is asserted. Otherwise, if defendants "are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Lear*, 395 U.S. at 670. This is a real hazard because "[t]he risk that a patent will be declared invalid is substantial. Roughly half of all litigated patents are found to be invalid, including some of great commercial significance." Lemley & Shapiro, *Probabilistic Patents*, 19 J. Econ. Persp. 75, 76 (2005); *see also* Love & Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. Chi. L. Rev. Dialogue 93, 94

(2014) (vast majority of patents subject to *inter partes* review are invalidated).[9]

Allowing defendants to raise their reasonable arguments at trial, even where the arguments were not fully developed at the outset of the allegedly infringing conduct, is also a practical necessity. Given how many patents cover modern, complex technology, it would impose an unreasonable burden on industry to conduct and document a thorough investigation of *every* potentially relevant patent before producing a product. According to one widely cited estimate, there are 250,000 existing patents relevant to smartphone technology. *See* Chien, *Predicting Patent Litigation*, 90 Texas L. Rev. 283, 289 (2011). Another study estimates that it would take the full-time labor of two million attorneys to compare every software-producing firm's products

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[9] The strong public interest in encouraging challenges to invalid or noninfringed patents distinguishes the government's cited cases (at 29) involving regimes designed to deter misconduct by officers of the law or the courts. *See Kingsley*, 135 S. Ct. at 2473 (reasonableness of police officer's use of force); *Rompilla* v. *Beard*, 545 U.S. 374, 381 (2005) (reasonableness of attorney's representation of client); *Terry* v. *Ohio*, 392 U.S. 1, 21-22 (1968) (reasonableness of stop-and-frisk). Patent law encourages—indeed, depends on—purported infringers challenging the validity and scope of patents, whereas the officer misconduct decisions are not intended to encourage officers to test the bounds of the law. Thus, while such decisions provide general guidance on other aspects of objective tests, they do not determine by when a purported infringer must have developed a reasonable defense.

Kolstad v. *American Dental Ass'n*, 527 U.S. 526, 535-538 (1999), which the government cites (at 25), is also inapposite. The regime in *Kolstad* authorized punitive damages only for "a subset of cases involving *intentional discrimination*," which necessarily requires an investigation into a defendant's mental state. *See* 527 U.S. at 534-535 (emphasis added); *id.* at 535 (particular punitive damages provision "focus[es] on the employer's state of mind").

with every software-related patent issued in a given year. *See* Mulligan & Lee, *Scaling the Patent System*, 68 N.Y.U. Ann. Surv. L. 289, 304-305 (2012). In other words, not only would the cost of Stryker's rule be prohibitive, but in some industries compliance may not even be possible. *See also Mayo Collaborative Servs.* v. *Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012) (rules that are overly protective of patentees can "requir[e] users to conduct costly and time-consuming searches of existing patents and pending patent applications").

2. Abandoning *Seagate*'s objective prong would harm American business

Both Stryker's and the government's proposals to abandon *Seagate* in favor of district court discretion to enhance damages for purely subjective reasons would fuel abuse of the patent system. Such an approach provides no way for a company to effectively assess whether, at some future date, a federal judge will regard its behavior as sufficiently improper to warrant punitive damages. Any innovative company, large or small, that produces a product is at risk of paying enhanced damages based on the post-hoc judgment of a district court. The threat of treble damages awarded based on this unpredictable standard would force companies to settle even marginal claims to avoid the possibility of enormous judgments. *Accord* Public Knowledge Br. 12-13.

Both proposals would also increase the incentive for filing questionable patent suits in the hope of obtaining a substantial windfall. While Stryker speculates (at 53) that the *Seagate* test leads "infringers to roll the dice on litigation," it cites no evidence. By contrast, overturning *Seagate* would unquestionably lead

patentees—even those with weak patents—to roll the dice by filing suit and using the threat of punitive damages to extract undeserved settlements. In this case, for example, the district court awarded Stryker over *$152 million* in enhanced damages alone. *See supra* p. 8.

The prospect of such significant damages is particularly troubling in light of the "industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring); *see also Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (recognizing that "[s]ome companies may use patents as a sword to go after defendants for money, even when their claims are frivolous," "behavior [that] can impose a 'harmful tax on innovation'"); *id.* at 1932 (Scalia, J., dissenting) (expressing concern regarding a rule that "increases the *in terrorem* power of patent trolls"). Indeed, non-practicing entities now "account for ... a majority of all patent assertions in the country" and they "win both larger judgments and larger settlements than do 'practicing entities.'" Lemley & Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2119-2120 & nn.13-14 (2013). Both Stryker's and the government's proposals would only magnify this problem.

Abandoning the objective prong would also increase the variability of willfulness judgments among judicial districts, which encourages forum shopping. A recent empirical study indicates that the frequency of willfulness findings varies dramatically by district. For example, the Eastern District of Texas found willfulness in 52.3% of cases where the issue was raised, while the District of Minnesota found willfulness in only

27.3% of cases. *See* Seaman, *Willful Patent Infringement and Enhanced Damages After* In re Seagate, 97 Iowa L. Rev. 417, 450-451 (2012). This trend would undoubtedly worsen were this Court to eliminate the willfulness requirement or even just its objective prong.

Stryker suggests (at 37-39) that district courts can simply use a number of "historically important considerations" to ensure that enhanced damages are awarded only in a limited amount of cases. But Stryker openly concedes (at 39) that the four factors it lists are not exclusive and that, accordingly, courts could consider a constellation of factors in determining whether to award enhanced damages, with no guidance on how to weigh them. *Accord* U.S. Br. 18 (conceding it can identify "'no precise rule or formula' to govern the district court's exercise of discretion ... under Section 284"). That approach would destroy predictability for patent defendants and lead non-practicing entities to forum shop to an even greater extent.

Seagate's objective prong also avoids the difficult choice between devoting enormous resources to the analysis of possible patents that might never be asserted and, as often happened during *the Underwater Devices* era, trying "not to read patents." National Research Council of the National Academies, *A Patent System for the 21st Century* 119 (Merrill et al., eds., 2004). Both choices—exhaustive investigation or willful blindness—are problematic: the first wastes resources and forces routine disclosure of the advice of counsel, while the second undercuts the teaching function of patents. Public Knowledge Br. 9-11. The *Seagate* test avoids this dilemma while appropriately deterring infringement where companies do not have objectively reasonable defenses. *See generally* IPO Br. 4 (discussing benefits of *Seagate* test).

Finally, Stryker's primary policy argument in favor of its desired approach is illusory. Stryker and the government offer no examples of savvy but unethical entrepreneurs making conscious decisions to infringe valid patents, and then relying on trumped-up defenses to avoid treble damages.[10] And no wonder. Compensatory damages and injunctive relief already discourage infringement, and only objectively reasonable defenses provide a shield against treble damages.

Stryker's and the government's proposals are "solution[s] in search of a problem." *Roberts* v. *Sea-Land Servs., Inc.*, 132 S. Ct. 1350, 1358 (2012). Indeed, their proposed "solution[s]" to hypothetical concerns would create very real problems of their own, with no countervailing benefit.

III. To The Extent The Court Reaches The Questions, The De Novo Standard Of Review And Clear-And-Convincing-Evidence Standard Of Proof Should Be Retained

As a threshold matter, Stryker identifies no reason why this Court need decide the proper appellate standard of review for, and level of evidence needed to establish, willfulness. Neither issue is dispositive of the outcome of this case or the companion case. Here, the Federal Circuit held that the district court's willfulness

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[10] Stryker's one-sided description of this case ignores Zimmer's objectively reasonable defenses based on the placement of its motor, the male nozzles on its device's handpiece, anticipation by Zimmer's Var-A-Pulse device under Stryker's broad construction of lock assembly, and the obviousness of substituting an electric motor for a pneumatic motor. *Supra* pp. 4-7. Moreover, as noted, Stryker pursued a recklessness theory in this case, allowing the jury to find willfulness under a "should have known" standard without a finding of actual knowledge or intent. *Supra* p. 7.

analysis rested on legal error and thus was incorrect under any standard of review. *Supra* p. 8. In *Halo*, the Federal Circuit merely affirmed the district court's conclusion under *Seagate*'s objective prong that Pulse had not engaged in willful infringement. *Halo* Pet. App. 22a. And in both cases, lowering the standard of proof on factual questions would not matter, because both cases turned on a legal determination of objective reasonableness. "[I]n this area of law as in others the evidentiary standard of proof applies to questions of fact and not to questions of law." *Microsoft Corp.* v. *i4i Ltd. P'ship*, 131 S. Ct. 2238, 2253 (2011) (Breyer, J., concurring).

In any event, the de novo review and clear-and-convincing-evidence standards are correct.

A. The De Novo Standard Of Review Should Be Retained

The de novo standard of review follows naturally from *Seagate*'s objective standard. Objective reasonableness under *Seagate* is a question of law, *Bard*, 682 F.3d at 1005, just like the *Safeco* objective recklessness test from which it derived. *Van Straaten* v. *Shell Oil Prods. Co.*, 678 F.3d 486, 490-491 (7th Cir. 2012) (Easterbrook, J.); *see also Purcell*, 807 F.3d at 288-289 (determination whether defendant's interpretation of legal obligations was "objectively reasonable" under the False Claims Act is a legal question). Such questions of law are reviewed de novo. *Pierce* v. *Underwood*, 487 U.S. 552, 558 (1988); *see also Scott* v. *Harris*, 550 U.S. 372, 381 & n.8 (2007) (suggesting that the "objective reasonableness" standard for qualified immunity is a question of law); *Ornelas* v. *United States*, 517 U.S. 690, 699 (1996) (reasonable suspicion and probable cause determinations reviewed de novo); *United States*

v. *Nerber*, 222 F.3d 597, 599 (9th Cir. 2000) ("Whether a citizen's expectation of privacy [under the Fourth Amendment] was objectively reasonable is a question of law reviewed de novo.").

Even without these settled principles, numerous considerations would support de novo review. First, the punitive nature of enhanced damages weighs in favor of searching appellate review. *See Jones* v. *United Parcel Serv., Inc.*, 674 F.3d 1187, 1204 (10th Cir. 2012) (legal errors in "punitive damage awards must [be reviewed] under a de novo standard"); *see also Pacific Mut. Life Ins.* v. *Haslip*, 499 U.S. 1, 21 (1991) ("[A]ppellate review makes certain that the punitive damages are reasonable in their amount and rational in light of their purpose to punish what has occurred and to deter its repetition."). *Second*, "as a matter of the sound administration of justice," the Federal Circuit, which encounters hundreds of patent cases each year, is "better positioned" to consider the reasonableness of a patent defense than district court judges who might preside over patent trials only occasionally. *See Pierce*, 487 U.S. at 559-560. *Third*, the "substantial consequences" of finding willfulness—here, a penalty of over $152 million—counsel in favor of "more intensive[]" review. *Id.* at 563; *cf. id.* (abuse of discretion review appropriate where "[t]he median award [under the relevant statute] has been less than $3,000").

Stryker's brief discussion of historical practice (at 24, 34-35) does not support abandoning de novo review. Modern standards of review had largely not been articulated when Congress enacted § 284. *See* Peters, *The Meaning, Measure, and Misuse of Standards of Review*, 13 Lewis & Clark L. Rev. 233, 238 (2009). In practice if not in name, however, pre-1952 court of appeals decisions commonly applied a searching form of

review, overturning enhanced damages awards not justified by a proper finding of willfulness. *See, e.g., Goodyear Tire*, 95 F.2d at 986 (reversing enhancement decision because willfulness was not raised in the pleadings and the district court's determination lacked evidentiary support); *Rockwood*, 37 F.2d at 66 (reversing enhanced damages award because the infringement was not "wanton and deliberate").

Moreover, the cases that Stryker cites do not actually apply an abuse of discretion standard to a district court's *threshold* finding of willfulness. Contrary to Stryker's suggestion (at 24), *Birdsall* v. *Coolidge*, 93 U.S. 64 (1876), says nothing about the appellate standard of review. Rather, the issue was whether the judge or the jury should have the power ("discretion") to award enhanced damages at all. 93 U.S. at 70. And *Topliff* v. *Topliff*, 145 U.S. 156 (1892), did not address the proper standard for reviewing a court's first-step determination of willful infringement, but rather the second-step question whether to affirm the district court's decision not to award damages despite a threshold showing of willfulness. *Id.* at 174. *Topliff*'s application of abuse of discretion review to *that* separate question is no different from Federal Circuit practice today. *Compare id., with Funai Elec. Co.* v. *Daewoo Elecs. Corp.*, 616 F.3d 1357, 1377 (Fed. Cir. 2010).

Stryker's other cited decisions (at 34-35) are unpersuasive for similar reasons. One case clearly falls into the same category as *Topliff*: it applied abuse-of-discretion review not to an initial threshold determination of willfulness, but rather to the district court's second-step decision that (having found willfulness) the particular circumstances of the case warranted enhancement. *See Overman Cushion Tire Co.* v. *Goodyear Tire & Rubber Co.*, 66 F.2d 361, 361 (2d Cir. 1933).

The remaining cases are simply opaque as to whether the court was reviewing the threshold willfulness determination or the district court's determination whether the particular circumstances of the case warranted enhancement.

Finally, Stryker contends that *Highmark*, which adopted an abuse-of-discretion test, should apply to the willfulness determination. Stryker Br. 24-25; *accord* U.S. Br. 33. However, *Highmark* interpreted § 285, and is inapposite for the reasons discussed above. *Supra* pp. 30-34.

B. The Clear-And-Convincing-Evidence Standard Should Be Retained

The clear-and-convincing-evidence requirement for enhanced damages has been well-established for decades. *E.g.*, *Shatterproof Glass Corp.* v. *Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985). Congress thus implicitly reaffirmed the standard when it reenacted § 284 in the AIA. *See Microsoft*, 131 S. Ct. at 2246 (clear-and-convincing-evidence standard for patent invalidity incorporated into statute even though "§ 282 fails to reiterate it expressly" because courts "*presume* that Congress intended to incorporate [settled judicial interpretations] unless the statute otherwise dictates").

The clear-and-convincing-evidence standard serves the important purpose of ensuring that treble damages will be meted out only for truly reprehensible conduct. *See Cooper Indus., Inc.* v. *Leatherman Tool Grp., Inc.*, 532 U.S. 424, 432 (2001) (punitive damages "operate as 'private fines' intended to punish the defendant and to deter future wrongdoing"). The majority of States thus require clear-and-convincing proof of willful or deliber-

ate conduct for punitive damages in tort, a practice this Court has endorsed. *See Pacific Mut.*, 499 U.S. at 23 n.11 (stating that "[t]here is much to be said in favor of a State's requiring, as many do ... a standard of 'clear and convincing evidence'" for punitive damages (citation omitted)). Academic commentary is to the same effect. *E.g.*, Markel, *How Should Punitive Damages Work?*, 157 U. Pa. L. Rev. 1383, 1437 (2009) (clear-and-convincing standard is "consistent with the view that retributive damages are an intermediate sanction that warrant an intermediate evidentiary standard of proof"); Wheeler, *The Constitutional Case for Reforming Punitive Damages Procedures*, 69 Va. L. Rev. 269, 298 (1983) (heightened standard of proof corrects "imbalance between the risk of an erroneous punitive damages judgment adverse to the defendant and the lesser risk of an erroneous judgment adverse to the plaintiff").

Stryker, which spends half a page on the issue (at 23-24), identifies no sound reason for abandoning the longstanding burden of proof. Even without an express textual command, the clear-and-convincing-evidence requirement is appropriate in light of the punitive nature of enhanced damages. *See supra* pp. 31-33. As a fallback, Stryker relies on *Octane* to argue that the preponderance standard is "'generally applicable in civil actions, because it allows both parties to share the risk of error in roughly equal fashion.'" Stryker Br. 16-17; *accord* U.S. Br. 31. But that reasoning counsels *against* a preponderance standard under § 284 where the risks are not "share[d]"; only defendants face any risk from § 284's one-sided, punitive provision. *See supra* p. 33.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

MARK C. FLEMING
REBECCA A. BACT
WILMER CUTLER PICKERING
HALE AND DORR LLP
60 State Street
Boston, MA 02109

DONALD R. DUNNER
FINNEGAN, HENDERSON,
FARABOW, GARRETT &
DUNNER
901 New York Ave., NW
Washington, DC 20001

SETH P. WAXMAN
Counsel of Record
THOMAS G. SAUNDERS
THOMAS G. SPRANKLING
JOHN B. SPRANGERS*
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com

JASON D. HIRSCH
WILMER CUTLER PICKERING
HALE AND DORR LLP
7 World Trade Center
250 Greenwich Street
New York, NY 10007

JANUARY 2016

* *Admitted to practice in California. Supervised by members of the District of Columbia Bar.*